

# Split Refunds

*Building Savings at Tax Time*

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# Agenda

- Overview
- *Refunds to Assets Pilots*
- Implications

# Quick Quiz...

**\$25 million**

*Typical AFIA (IDA) annual appropriation*

**\$50 million**

*Proposed SWFA (IDA) annual cost*

**\$4,280 million**

*Proposed ASPIRE Act annual cost*

**\$81,776 million**

*Tax refunds to filers w/ AGI <30k (2003)*

# Quick Quiz...

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*to be to-scale, line would continue for about 30 more screens...*

You get the idea...

**\$82 billion is a lot of money**

*even a small slice devoted to saving could make a big difference*

# More on Tax Time...

## ■ Consider:

- 55 million tax filers w/ Adjusted Gross Income <30k (28 million w/ AGI 10-25k)
- average of \$1,482 (\$1,851 for AGI 10-25k)
  - by far, largest lump sum received all year
  - up to 36% of household income
  - ex: parent / 2 kids, 14.4k AGI: \$4.4k EITC + \$360 CTC
- amount variable, unpredictable
  - therefore difficult to “pre-spend” with precision
- calculated in presence of tax preparer

***So, how do we capitalize on tax time?***

# What are Split Refunds?

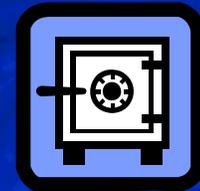
**Before:** Spend *or* Save (1 direct deposit)

 Internal Revenue Service  
United States Department of the Treasury



- OR -

 Internal Revenue Service  
United States Department of the Treasury

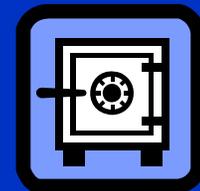


**Now:** Spend & Save (2 or 3 DDs)

 Internal Revenue Service  
United States Department of the Treasury



- AND -



# Why does *that* Matter?

- Splitting & tax time - powerful combination
  - Convenience - one-stop / single decision
  - Mental accounting - reflect on spending needs
  - Pre-commitment - act on good intentions *now*
  - “Inter-mediation” - (trusted) person there to ask
- Evidence from other arenas
  - Social Security & 401(k)s
    - one (or no) decision = lasting results
  - “SMarT” program (commit to save future raise)
    - 78% signed up; 80% stay with it through 4 raises

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# Nice Theory, but...

## ■ Key questions

- does anyone want it?
- how much will people save?
- will it matter?

## ■ To test theory: *Refunds to Assets (R2A)*

- TS 2004 w/ CAPTC
- TS 2005
  - CAPTC (Tulsa)
  - FoodChange (NYC)
- TS 2006
  - seven sites
  - H&R Block as partner

**Save Some**  
*of your* **Refund**

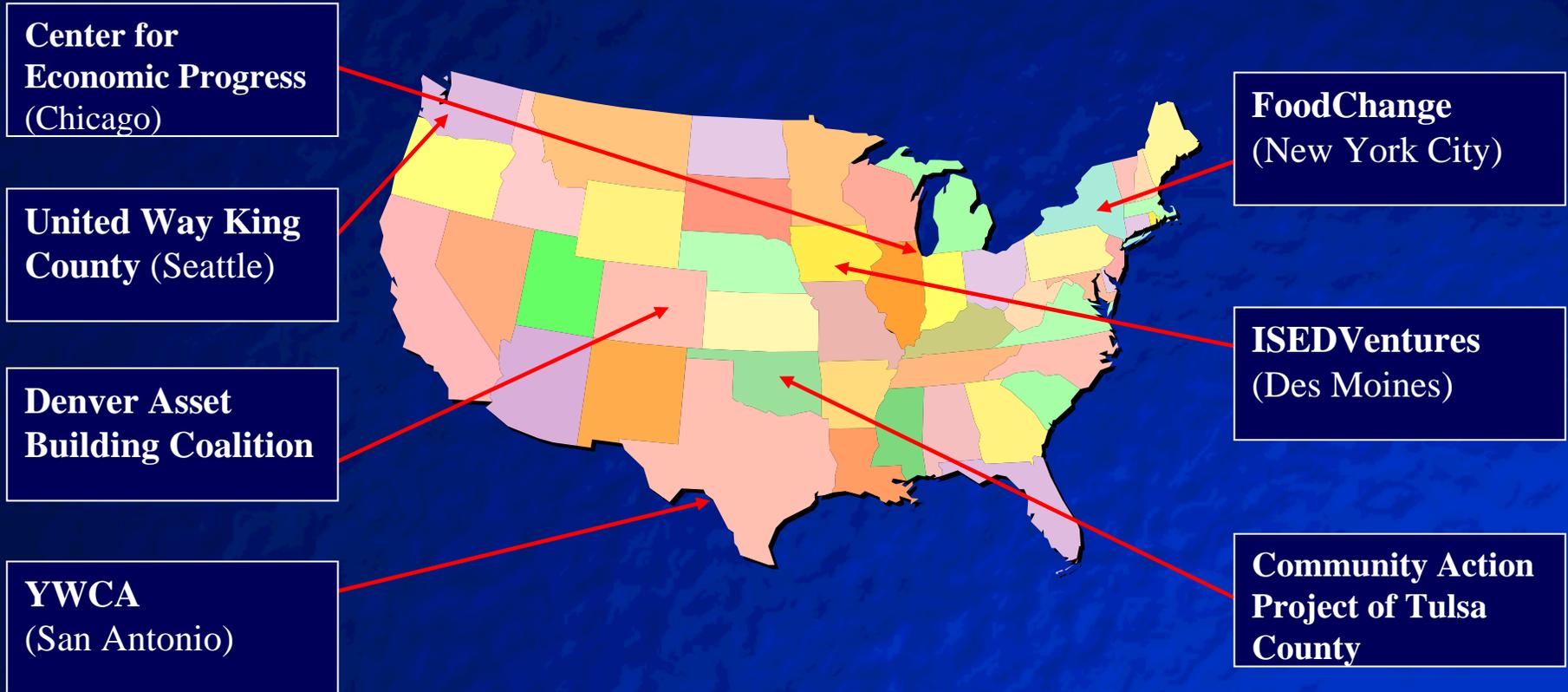
**Spend Some**  
*For your expenses*

**Save Some**

- For a Rainy Day Fund
- An Emergency
- Car purchase & Repair
- Home Purchase & Repair
- Education

**Refunds to Assets** *You decide what to save for and how much.*

# R2A Pilot Sites, 2006



- Wide variety of tax sites, models
- Used software, processing from H&R Block

# R2A Findings: Anyone Want it?

- **Yes! (at least some)**

- take up rates:

- 12+% ('04)
- 5-8% ('05)
- 0-8% ('06)

- **Those who use it, like it**

- 100% would recommend to a friend ('04)
- 97% plan to split again next year ('04)
- reports of returning clients asking for it ('06)

- **Discovered need for savings accounts**

- 76% have no or only 1 account
- 10% rejected by ChexSystems ('04)

# R2A Findings: How much Savings & So What?

## ■ Does generate savings

### – initial deposits

- average \$606 / 47% of refund ('04)
- \$602 / 45% ('05)
- \$969 / 47% ('06)

### – 3/4 reported no prior savings ('04)

### – 83% “service helped me save more” ('04)

## ■ So what? Too early to know for sure

- In follow-up, 78% still saving or met goal (vs. 42% of comparison group) ('04)
- 62% accounts open 7-8 mos later; avg balance of \$27 after 9 mos. ('04)

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# R2A Observations

## ■ “Savings” resonates

- 31% surveyed planning to save already ('05)
- 43% of decliners cite own saving strategy ('06)

## ■ Product is important

- 67% of splitters opened new accounts ('04)
- 26% of hopefuls foiled by ChexSystems ('04)
- simple may be best (no takers for CDs, 529s)

## ■ Marketing matters

- multiple “asks”
- appears to be “point of sale” purchase

## ■ Long term process?

- clients have asked for it in subsequent years
- if habitual, saving will occur when time is right

# Implications

## ■ For CBOs

- means to fund existing accounts (e.g., IDAs)
- opportunity to promote saving more broadly (e.g., AmericaSaves campaign)
- suggest clients bring savings account info. to tax prep

## ■ For financial institutions

- opportunity to gather deposits
- chance to drive LMI savings w/ viable initial deposits
- but must many LMI savers need on-site accounts...

## ■ For policy advocates

- 'plumbing' on which to build (refundable savers cr)
- but we must demonstrate this works

# Shameless Advertisements

- **Build Savings at Tax Time: *Guide to Split Refunds for VITA Sites***
  - “how to” guide for free tax prep sites
  - D2D, UWA & NCTC partnered to produce
  - available in early October
- **[www.splitrefunds.net](http://www.splitrefunds.net)**
  - companion to *The Guide*
  - late-breaking news
  - forum to facilitate learning, idea sharing
- **SavingsPoint**
  - Block & D2D’s plan to solve the account problem

# Questions / Discussion

**D2D Fund, Inc.**

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